

Beacon Weekly Investment Insights

To say that last week was an eventful one for markets is likely an understatement. There were a variety of consequential economic data releases and earnings announcements throughout the week, as well as the Fed meeting last Wednesday in which interest rates were left unchanged as expected. In addition, the announcement last Friday that President Trump is nominating Kevin Warsh to be the next chair of the Federal Reserve drove meaningful volatility in metals including gold and in particular silver, which was down roughly 30% on the day. The 10-year treasury yield ultimately closed the week up slightly at 4.24%. We are also in the midst of a partial government shutdown, as immigration reform remains a sticking point.

Kevin Warsh is generally seen as a more hawkish selection for Fed chair, that has tended towards focusing more on upside risks to inflation rather than downside risks to employment and growth, as evidenced by his time serving on the Fed's Board of Governors during the Great Recession. This predisposition would not necessarily lend itself to a policy of further cutting interest rates, which has of course been a key focus for the current administration. Kevin Warsh is also viewed as favoring a smaller Fed balance sheet, which reduces liquidity in the financial system. The market's view of Kevin Warsh's policy preferences drove strength in the dollar and an unwind of the "debasement trade," a main driver of the afore-mentioned significant drop in silver after a historical run-up in prices.

With this said, Kevin Warsh has more recently advocated for lower rates and has expressed the view that AI can drive significant productivity growth while also exerting downward pressure on inflation. For the time-being, markets continue to price in two more rate cuts for this year (as was the case before the announcement), suggesting that his more recent views will prevail as far as interest rate policy in the shorter-term. Ultimately, Kevin Warsh is generally well respected and widely viewed as a good choice who is highly competent, pragmatic, credible, and can likely be successful in his ability to lead the Fed.

Economic data released last week included a delayed durable-goods orders report, with orders increasing by 5.3% for November, ahead of expectations for a 4.5% increase and jumping meaningfully from the prior decline of -2.1%. The number was driven by strong on-going business investment, as companies continue to invest heavily in new technologies such as AI and robotics. The durable-goods minus transportation reading rose a more moderate 0.5%, with the reported 5.3% increase being helped meaningfully by new contracts for passenger planes. The Case-Shiller home price index came in slightly ahead of expectations, showing moderating home price appreciation with a 1.4% annual gain for November, slightly ahead of expectations for a 1.3% increase.

Jobless claims were released on Thursday as usual, with weekly claims coming in at 209,000 relative to expectations for 205,000 claims, and down slightly from the prior reading of 210,000. Ultimately, jobs data continues to broadly tell a story of a low-hire/low-fire employment environment. PPI (producer price index) data was released last Friday and came in higher than expectations with respect to both the headline and core numbers. Headline PPI increased by 0.5% in December, above expectations for a 0.3% increase and up from the prior reading of 0.2%. Headline PPI also came in significantly above expectations on a year-over-year basis increasing 3.0% relative to expectations for a 2.7% increase. Core PPI (excludes food and energy) likewise increased by 0.4% in December relative to expectations for a 0.3% increase and the prior reading of 0.2%, with a year-over-year increase of 3.3% relative to expectations for a 2.9% increase. Interestingly, the higher-than-expected figures were driven by a surge in services while goods prices were stagnant.

There were also a flurry of earnings announcements last week (as will be the case this week as well), including from closely watched mega-cap tech names such as Microsoft, Meta, and Apple. Despite posting strong results that beat expectations, Microsoft traded down meaningfully after earnings, dropping roughly 10%. The drop can largely be attributed to investors setting a high bar with respect to expectations for growth in Azure cloud services

in particular, which slowed somewhat and came in slightly below expectations, against the backdrop of surging capital expenditures. The market is more closely scrutinizing the soaring Capex from hyperscalers such as Microsoft in terms of the timing and magnitude of return on investment for the massive spending on AI infrastructure.

In contrast, Meta closed the day up roughly 10% after reporting earnings last Tuesday, as the company reported a strong jump in advertising revenue and issued a strong forecast, which helped to convince investors that the company's AI investments will bear fruit. It's also worth noting that Meta trades at a less demanding valuation than many of its mega-cap tech peers. Apple also reported strong numbers and guidance with iPhone sales blowing past estimates, significant services revenue growth, and a strong rebound in China sales which had been a headwind for some time. With roughly one third of the companies in the S&P 500 having reported earnings thus far, overall earnings growth has broadly come in better than expected. The aggregate earnings growth rate for Q4 2025 currently stands at 11.9%, relative to expectations for 8.3% growth headed into the quarter.

This week will be another busy week with respect to both economic data and earnings releases. On the economic data front, the ISM Manufacturing and Services reports will be released on Monday and Tuesday, respectively. There is also a variety of jobs data on the docket including job openings data set to be released on Tuesday, followed by the ADP employment report on Wednesday, jobless claims on Thursday. The closely watched U.S. employment report was scheduled to be reported on Friday, but will be delayed due to the partial government shutdown. In addition, roughly 25% of S&P 500 companies are scheduled to report earnings this week, including the likes of Alphabet and Amazon.

| Market Scorecard: | 1/30/2025 | YTD Price Change |
|-------------------------------|------------------|-------------------------|
| Dow Jones Industrial Average | \$48,892.47 | 1.73% |
| S&P 500 Index | \$6,939.03 | 1.37% |
| NASDAQ Composite | \$23,461.82 | 0.95% |
| Russell 1000 Growth Index | \$4,691.16 | -1.54% |
| Russell 1000 Value Index | \$2,163.13 | 4.42% |
| sRussell 2000 Small Cap Index | \$2,613.74 | 5.31% |
| MSCI EAFE Index | \$3,042.84 | 5.19% |
| US 10 Year Treasury Yield | 4.24% | +7 basis points |
| WTI Crude Oil | \$65.21 | 13.57% |
| Gold \$/Oz. | \$4,745.10 | 9.31% |



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